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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7996

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 00462

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E.O. 11652: GDS

TAGS: PINT, UK

SUBJECT: PM'S VIEWS ON UK ECONOMY

SUMMARY: DURING AMBASSADOR'S FAREWELL CALL ON PRIME MINISTER WILSON LITTLE OF SUBSTANCE DEVELOPED BUT PM'S VIEWS ON ISSUES AND PROBLEMS OF BRITAIN'S ECONOMIC FUTURE WERE OF INTEREST. AS IS HIS TENDENCY, HE WAS OPTIMISTIC. END SUMMARY

1. DURING COURSE OF FAREWELL CALL ON PRIME MINISTER AT WHICH AMBASSADOR WAS ACCOMPANIED BY DCM, WILSON DESCRIBED HIS VIEWS ON OUTLOOK FOR BRITISH ECONOMY IN MONTHS AHEAD. HIS BIGGEST WORRY, HE SAID, WAS THAT "TEDIOUS WOULD TAKE OVER" AND THAT INCREASING UNEMPLOYMENT WOULD ERODE WILLINGNESS OF TRADE UNIONS TO SUPPORT, AS THEY HAD IN 1975, PROGRAMS NECESSARY TO DEAL WITH FUNDAMENTAL PROBLEMS. LAST YEAR WAS COMPARABLE TO WARTIME 1941-42 PERIOD FOR BRITAIN, WHEN PUBLIC MOOD WAS FULL OF RESOLUTION AND DETERMINATION TO WIN. 1976, HE EXPECTED, WILL BE MORE COMPARABLE TO 1943, A DIFFICULT TROUGH WHEN RESULTS WERE HARD TO SEE.

2. 1976 WILL, HE STRESSED, SHOW RESULTS ON INFLATIONARY FRONT, WHERE THINGS ARE "IMPROVING ENORMOUSLY. WE ARE WITHIN REACH OF ACHIEVING OUR TARGET OF 10 PERCENT BY
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SEPTEMBER." THIS WILL BOOST CONFIDENCE OF INDUSTRY AND,

MORE IMPORTANTLY, OF HOUSEWIVES, BUT THERE WILL BE ANXIOUS MOMENTS ON SETTING SECOND YEAR PAY POLICY.

3. WILSON CLAIMED THAT HIS INDUSTRIAL POLICY HAD BEEN SHOWING "GOOD SUCCESS" OVER PAST TWO OR THREE WEEKS. ALTHOUGH LEYLAND'S INABILITY TO PRODUCE FOR THE ORDER BOOKS WAS "GALLING, THEY WERE SHOWING STRONG SUCCESS WITH THEIR NEW MODELS. ALSO, SINCE LORD RYDER WENT TO SPEAK TO WORK FORCE TWO MONTHS AGO, THE MEN ARE WORKING AND "TURNING OUT CARS AT A RATE NEVER BEFORE SEEN IN THIS COUNTRY." PM CLAIMED THERE WERE SIGNS OF MORE REASONABLE AND RESPONSIBLE ATTITUDE BY LABOR RANK AND FILE. LAST YEAR'S INDUSTRIAL DISPUTES WERE LOWEST SINCE 1969 AND "60 PERCENT UNDER THE PREVIOUS YEAR."

4. A BIG PROBLEM IN PM'S MIND REMAINED ATTITUDE OF MANAGEMENT TO INVESTMENT. NEVERTHELESS, POLICY ADOPTED AT CHEQUERS WAS "ROARING AHEAD" AND THIRTY INDUSTRIAL GROWTH AREAS HAD NOW BEEN IDENTIFIED. IN LIGHT OF GENERALLY BAD RECORD ON INVESTMENT, HMG WAS TELLING PEOPLE THAT THIS IS THE TIME TO GET THEIR EQUIPMENT CHEAP. NEW INVESTMENT INCENTIVE ARRANGEMENTS SUCH AS THE GERMANS HAD ADOPTED 18 MONTHS AGO WERE NOW UNDER CONSIDERATION. ESSENTIAL PROBLEM WAS INDUSTRY'S ATTITUDE THAT: "WHEN TIMES ARE GOOD WE DON'T NEED TO MODERNIZE, AND WHEN THEY ARE BAD WE CAN'T AFFORD TO." INDUSTRY REMAINED WORRIED ABOUT PRICE CONTROL STRINGENCIES. GOVERNMENT HAD GIVEN SOME RELIEF, BUT BASICALLY INDUSTRY'S LIQUIDITY POSITION WAS NOW GOOD. THERE WAS LOTS OF MONEY IN PRIVATE HANDS AND PM WAS ANX-

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IOUS TO PREVENT A REPETITION OF 1972-73 WHEN THIS MONEY WENT INTO PROPERTY SPECULATION. INTENTION SURVEYS CONDUCTED BY "FINANCIAL TIMES" WERE LOOKING BETTER NOW.

5. WILSON ALSO RECOGNIZED THE FUNDAMENTAL PROBLEMS POSED BY OVERMANNING. HMG WOULD BE CONDUCTING A CRUSADE TO SHOW HOW SOCIALLY WRONG THIS WAS. MEN ON SHOP FLOOR ARE BEGINNING TO UNDERSTAND CRUCIAL IMPORTANCE OF PRODUCTIVITY TO THEIR OWN FUTURES. SUBSTANTIAL IMPROVEMENT IN PRODUCTIVITY WAS NOW TAKING PLACE IN SECONDARY INDUSTRIES (E.G. WOOL, TEXTILES, MACHINERY, PAPER) AND A LOT WAS GOING ON "THAT ISN'T BEING REPORTED." LATEST CBI SURVEYS, ALSO, WERE VERY ENCOURAGING ON EXPORT ORDERS. ALL-IN-ALL, PM FELT THE LAST SIX MONTHS HAD PROVIDED A TREMENDOUS LESSON IN BASIC ECONOMICS. UNFORTUNATELY, IN ORDER TO MAKE GOVERNMENT WAGE POLICY "MONITORABLE" IT HAD BEEN NECESSARY TO RULE OUT PRODUCTIVITY DEALS AT TIME OF SIX-POUND PAY PACKAGE. THIS DIFFICULT ISSUE, AS WELL AS THAT OF PAY DIFFERENTIALS, WOULD HAVE TO BE ADDRESSED IN CONNECTION WITH NEW PACKAGE.

6. COMMENT: WILSON'S OWN POSITION COMPELS HIM TO SEE THE SUNNIER SIDE OF BRITAIN'S ECONOMIC FUTURE AND TO MAKE OPTIMISTIC PROGNOSSES ON BASIS OF INCOMPLETE EVIDENCE. NEVERTHELESS, THIS EMBASSY DOES NOT CONSIDER THAT HIS PERSPECTIVE IS FUNDAMENTALLY OFF THE MARK.
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